Vendor Information Management
Best Practice Summary

February 14, 2006

Value derived from enterprise vendor management according to best practice sources: 1) collecting enterprise-wide spend aggregation data, 2) product consolidation – getting consumers to standardize on requirements, 3) ability to track demand and forecast deviation, improving time to market/solution, 4) tracking contract performance, tracking supplier performance, ability to quickly understand and research supplier market opportunities in order to verify current good deals or get improved deals, 5) segment vendors into like groups and manage them accordingly (for example, manage vendors of commodities primarily on price), 6) reduce the complexity of the vendor management process.

The Essentials of Supplier Relationship Management
By Dave Horne

http://www.isourceonline.com/article.asp?article_id=2251

A single view of all processes that face suppliers must be able to cross functional boundaries (procurement, contracting, AP) and physical boundaries (business units within the supplier and departments and business units within the state. These systems must reduce or eliminate the duplicate and inconsistent date across the as-is management systems and must provide a complete view of goods and services previously purchased, on order and available from any supplier.

The systems must create efficiencies and incentives for the suppliers to motivate their participation. Possible wins for the vendor are: better visibility into the supply chain, opportunity to build customer awareness of unique products, and the ability to publish catalog content easily.

Forrester: Building The Vendor Management Function
by Robert McNeill and Marc Cecere

Contract tracking – Regardless of the size or structure of the organization, VM tracks contracts within the enterprise. It should, for example, track when a contract is ending, who the primary and alternative vendors are, and groups impacted. This information is then provided to groups who are managing the contract.

Contract negotiation and management. VM should negotiate and manage enterprise contracts for broadly used tools such as Microsoft Office or Siebel 7. In most cases, VM should not negotiate contracts for highly specialized products where greater expertise is available. For these situations, VM should provide oversight, coaching, and leverage.

Consulting. In the case of focused products, such as mainframe utilities or specialized applications, VM can provide the leverage of the entire organization and advice in dealing with vendors.

Many of the metrics employed for measuring the success of a VM function will be a quantitative and qualitative mixture. These may include the following:
- Reduction in the costs associated with managing relationships — managing vendor relationships can cost up to 3% to 6% of a total engagement.
- Improved IT/business alignment measured by an increase in project success rates.
- Improved satisfaction of customers, service managers, and service providers.
- Immediate access to real-time information to assist in planning, budgeting, and cost reduction.

Vendor Information Management
Best Practice Summary

170-Systems: "Managing Your Vendor File"

Poorly managed master vendor data puts you at serious risk for:
- Procure-to-pay fraud
- Non-compliance with government regulations
- Duplicate payment errors
- Poor cash management
- Second-rate purchasing decisions

- Institute a process to verify new vendors: check to see if new vendor is an employee (by name, address, etc.) , verify name and address using online source, if large purchase use a credit rating service, verify W9, WMBE status.

- Develop standards for vendor setup including name and address. Us a USPS mailing house to verify and normalize mailing address

- Periodically purge inactive vendors

- Clean up redundant and obsolete vendors and link together related vendors. If vendors merge or are acquired by another company create a link between them to allow meaningful reporting. Link related vendors: subsidiaries to their parents, franchisees to their franchisers, etc.

- Analyze cleaned-up data and prioritize and categorize spend to determine the most likely areas for savings.

- Make vendor management a process not a project.

170-Systems Webcast Vendor Master Chaos

- Ownership of the vendor master belongs in AP since the universe of payees is larger than those bought from.
- Vendor files grow because: Vendor is not found when searching, vendor changes name, address or lock box changes, mergers, acquisitions, divestures
- Typical problems: purchasing and AP use different data, names and addresses are inconsistent or are changed (street address, zip, phone, area code), tax ID is missing or invalid, 1099 category is incorrectly recorded, name is not consistent with tax ID
- Up to 2/3 of vendors end up being paid only one time
- Up to %7 of vendors change their name each year

Key goals of vendor management:
- Catch/reduce fraud
- Know your vendors
- Comply with laws and regulations
- Know where money is spent
- Reduce duplicate payments
- Save money

A vendor management program should:

Vendor Information Management
Best Practice Summary

- Assess vendor data – a) analyze vendor master data and transactional data for patters, issues and inconsistencies, b) review vendor setup and maintenance processes, c) document initial recommendations
- Purge – purge, block or flag – a) stale or low activity vendors, duplicate vendors, b) identify vendors that are: on the OFAC or FTO list, sensitive vendors, employees, foreign,
- Cleanup – duplicate vendors, link related vendors, add zip+4, standardize names, normalize addresses, standardize phone numbers and tax ids
- Enhance – add processes for new vendors to verify name and TIN against IRS data, check OFAC and FTO lists, add D&B data, UBI data, SIC/NAICS codes, credit information, WMBE data, ACH data, corporate relationships,
- Analyze – Analyze vendor relationships by purchasing volume and dollars, by GL and commodity, and by organization and location
- Improve – use standard entry and maintenance rules; verify vendors; enhance vendor communication; purchase, process and pay smarter.

Best Practices
- Verify vendors before adding
- Always use W9 and welcome packets
- Require vendors to sign a business practices statement
- Purge and cleanup every year
- Use standard rules for names and addresses
- Always capture phone number and additional useful data during the self registration process

Data Management: An Executive Briefing: Optimizing the Vendor Master File -- *Published in DM Review in March 2005* by George Marinos

Here are eleven critical practices you can't afford to overlook.

1. **Clearly Define Ownership of the Vendor Data:** Make sure the data owner for the vendor master file is clearly identified. This should be someone with the procurement and payables business process knowledge necessary to assume responsibility for a) determining vendor master data requirements and standards; b) coordinating data quality activities for those that use, enter, update or maintain the file; and c) implementing and monitoring vendor master file optimization procedures.
2. **Engage Access Controls to ensure authorized update of vendor data** Engage access controls, such as user IDs and passwords, to ensure that only authorized individuals have the ability to make changes, deletions or additions to the vendor master file. Multiple failures to log on should invalidate the user ID and be logged on an exception report. Management should investigate all unauthorized attempts to access the vendor master file.
3. **Establish Clear Vendor Setup Procedures:** These should include formal procedures for prequalifying vendors (i.e., documenting and retaining research in accordance with corporate policies); for the requestor's completion of a standard Vendor Master Record Change Request Form; for operational management's approval of all change requests; and for standard procedures ensuring that vendor master file changes comply with data quality standards and naming conventions.
4. **Enforce New Vendor Approval Practices:** Policies should be established to review quality control procedures, delivery history, distribution requirements, terms of trade, conflict of interest, discounts, promotional support, transactional accuracy, use of technology, and production scheduling flexibility prior to approving new vendors. Additionally, finance should make a determination (i.e., using Z-Scores) on whether the vendor's financial strength warrants a relationship.

Vendor Information Management
Best Practice Summary

5. **Determine When Multiple Vendor Records Will Be Allowed:** Ideally, each vendor would appear in the vendor master file only once. However, in practice, multiple records for the same vendor may be required. Separate records for the same vendor should be used when there are differences in remit-to addresses, discount terms or transactional tax treatments. When negotiating vendor agreements, purchasing should take into consideration the impact on accounts payable processing and request consistent terms and remit-to addresses.

6. **Manage One-Time Vendor Accounts Separately:** Policies should be established to ensure that vendor master records are not created for limited-use vendors. Establish minimum transaction counts (i.e., five annual transactions) and spend thresholds (i.e., $5,000 annually). Vendors not meeting these thresholds should be processed as one-time vendors. Consider maintaining a miscellaneous vendor activity file to facilitate 1099 reporting. Look to strategic sourcing and the use of p-cards to reduce the need for one-time vendors. To lower the risk of duplicate payments, consider not allowing manual or electronic data interchange transactions with vendors on p-card programs.

7. **Apply Consistent Naming Conventions:** The basics? Start by excluding abbreviations or punctuation, eliminating honorifics (i.e., "Mr", Mrs", "Dr", etc.), storing information in all upper case and using ISO standards for country codes. For more ideas, see the sidebar.

8. **Enforce Data Validation:** Vendor records should not be created without complete population of critical data elements, such as Federal Identification Numbers. Consider 1) sending Vendor Master Record Request Forms to the vendor for confirmation prior to establishing new records, or 2) obtaining confirmation of vendor data via a telephone request. Reconfirm this data on a periodic basis. One more thing: be sure to record the vendor's fax number used to return confirmation documents.

9. **Maintain Your Systems and Policies on a Regular Basis:** Due to changes resulting from mergers, acquisitions, name changes, etc., vendor master records should be evaluated regularly. On an annual basis, review for inactive accounts, duplicate and incomplete records, file format errors and accuracy issues. Accuracy can be confirmed via a vendor confirmation process and is best conducted with the support of procurement. Information from D&B or marketing data service providers can be used to validate vendor name and address data. Postal code information can be used to ensure consistency with city/state and ZIP codes. Additionally, comparing vendor master data to employee files may help you detect fraudulent activity.

10. **Remove Old/Unused Vendors from the System:** You may have to work harder at this than you think. Why? Many systems only allow users to "end-date" master data to disable a particular record - even though this process does not delete the record itself. And the purge feature? Most of the time, it targets only transactional data - not master data. So maybe you're thinking, "Fine, we'll remove vendors through table-level maintenance...", right? Good idea. But read the next paragraph first.

11. **Make Sure You're Retaining the Right Records:** There's a good chance that your business and industry is subject to legal, tax or regulatory requirements that may require you to retain transactional records for seven years or longer. Still interested in doing table-level maintenance on the vendor master to remove old/unused vendors? Consider archiving transactional history